

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye  
Marshall Johnson  
Ken Nickolai  
Thomas Pugh  
Phyllis A. Reha

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Request by Northern States  
Power Company d/b/a Xcel Energy for  
Approval of a Power Purchase Agreement with  
MinnDakota Wind LLC

ISSUE DATE: May 3, 2006

DOCKET NO. E-002/M-06-85

ORDER APPROVING POWER PURCHASE  
AGREEMENT AS AMENDED

**PROCEDURAL HISTORY**

On January 23, 2006, Xcel filed its request for approval of a power purchase agreement (PPA) with MinnDakota, LLC for up to 150 MW of wind generation. MinnDakota, LLC is a single-purpose entity created and owned by PPM Energy.

On March 8, 2006, the Minnesota Department of Commerce (the Department) filed comments.

On March 22, 2006, Xcel filed reply comments and filed supplementary reply comments on March 27, 2006.

On March 30, 2006, the Department filed reply comments.

The Commission met on April 20, 2006 to consider this matter.

**FINDINGS AND CONCLUSIONS**

**I. Xcel's Proposal**

Xcel proposed a PPA for up to 150 MW of wind generation on the Buffalo Ridge, with wind turbines located in both Minnesota and South Dakota. The wind energy will be generated from a facility located on the Buffalo Ridge in Lincoln County, Minnesota. The South Dakota location is in Brookings County. Under the PPA, Xcel will purchase the entire output of the project over the 15-year term of the contract.

Xcel sought to count this wind purchase toward legislative requirements in the resource planning mandate of Minn. Stat. 216B.2423, subd. 2. Xcel also sought Commission approval of the PPA so that costs incurred in connection with the PPA are recoverable consistent with Minn. Stat. 216B.1645.

## **II. The Department's Recommendation**

In its initial comments, the Department concluded that the curtailment provisions in the PPA were appropriate and that Xcel's ratepayers were appropriately protected under the PPA from the financial and operational risks of the PPA, except for the financial risk related to the interconnection provisions. The Department also expressed concern that the PPA's purchase price appeared too high and that the PPA's terms governing interconnection (Section 7.5) shifted too great a burden of risk to ratepayers.

After reviewing the additional information provided by Xcel, the Department concluded that the federal Production Tax Credit (PTC) and transmission issues created sufficient justification for delays in negotiating the PPA. The Department noted that after the delay in the PPA negotiations the market environment for wind changed significantly, causing significant increases in wind turbine prices. The Department concluded that in light of these mitigating circumstances the higher purchase price in the PPA was justified. To avoid future lengthy delays and potential price increases, however, the Department proposed that the Commission set a time limit on the length of the negotiation period for future projects selected in any competitive bidding process.

In its March 30 reply comments, the Department continued to recommend that the MinnDakota PPA be amended to address the cost recovery of any interconnection costs associated with subsections 7.5 (B) through 7.5 (H). To do this, the Department proposed adding a new subsection that would more appropriately allocate the risk of interconnection between Xcel's ratepayers and the seller, and proposed specific language for the new subsection.

At the hearing, the Department submitted, jointly with Xcel, language revising the allocation of risk between the ratepayers and the shareholders regarding interconnection costs. The Department stated that the revised language adequately addressed its concern.

## **III. The Commission's Analysis and Action**

The price of the MinnDakota PPA is considerably higher than the price in the original All Source bid and in the Ivanhoe PPA. However, the Commission notes that all of the selected 2001 All Source wind bidders have had to revise upward the pricing for their projects.<sup>1</sup> The price increase for wind projects is not isolated to a particular vendor, but is a part of the economics of the industry. The reasons for the price increases are fully discussed in both the Fenton and Mower PPA dockets and approved by the Commission in Orders issued in those dockets on March 31, 2006.

Regarding curtailment concerns, the curtailment provisions in the PPA have not been changed materially from those in the Ivanhoe PPA, which has been approved by the Commission. The

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<sup>1</sup> See enXco's Fenton project in Docket No. E-002/M-05-1850 and FPL's Mower County project in Docket No. E-002/M-05-1934.

Ivanhoe PPA is similar to the MinnDakota PPA with respect to curtailment issues.<sup>2</sup> In addition, because the project is timed to come into service with the transmission system improvements, there is unlikely to be significant curtailment related to this project.

After reviewing the PPA as initially submitted, the Department raised a legitimate concern that the PPA unreasonably allocated to ratepayers the risk of recovery of interconnection costs. The Commission finds that the language jointly submitted by the Department and Xcel properly addresses the interconnection cost recovery issues. The proposed language is a new subsection to the PPA that more appropriately allocates the risk of interconnection between Xcel's ratepayers and the seller. A copy of that new language, the First Amendment to the First Amended and Restated Renewable Energy Purchase Agreement Between MinnDakota Wind, LLC and Northern States Power Company, is attached.

In all other respects, Xcel's petition is reasonable and will be accepted.

### **ORDER**

1. The Commission approves the PPA between MinnDakota Wind, LLC and Northern States Power Company as amended by the First Amendment to the First Amended and Restated Renewable Energy Purchase Agreement Between MinnDakota Wind, LLC and Northern States Power Company distributed by Xcel at the April 20, 2006 hearing, a copy of which is attached to this Order.
2. Xcel is hereby authorized to recover via the Company's automatic fuel adjustment the costs of the PPA, except for the costs as specified in the First Amendment to the First Amended and Restated Renewable Energy Purchase Agreement referred to in Order Paragraph 1.
3. Xcel shall credit to the fuel clause any compensation it receives from the relevant transmission authority for calling an interruption of the energy generated from this project during the period that Xcel is recovering curtailment provision costs from ratepayers.
4. Xcel shall identify in its monthly fuel adjustment report the date, length, costs to ratepayers and reason for each voluntary curtailment associated with this project; all such events should be summarized in Xcel's annual automatic adjustment (AAA) report.
5. Xcel shall revise its contract negotiation practices and procedures to ensure that a PPA is

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<sup>2</sup> In fact, the MinnDakota PPA is a First Amended and Restated Contract of the original PPA between Xcel and Ivanhoe. The change in name from Ivanhoe to MinnDakota reflects the fact that some of the wind turbines are going to be placed in South Dakota. The Ivanhoe PPA, including its curtailment provisions, was approved by the Commission in an Order issued October 4, 2004 in Docket No. E-002/M-04-404.

executed within one year of Commission approval of resource acquisitions selected through a competitive bid process.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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